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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Adopt
Biomethane Standards and Requirements,
Pipeline Open Access Rules, and Related
Enforcement Provisions.

R.13-02-008
(Filed February 13, 2013)

**OPENING COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) ON THE AMENDED
SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE**

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May 23, 2014

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In accordance with the Amended Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge (Amended Scoping Ruling), Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) respectfully submit the following comments on Phase 2 of the California Public Utilities Commission's (Commission) Order Instituting Rulemaking to Adopt Biomethane Standards and Requirements, Pipeline Open Access Rules, and Related Enforcement Provisions (Rulemaking).

I. INTRODUCTION

SoCalGas and SDG&E appreciate the Commission's continued efforts to further advance biomethane in California and address the requirements of Assembly Bill (AB) 1900 (Stats. 2012, Ch. 602). AB 1900 amended and added several code sections to the Public Utilities Code pertaining to biogas and biomethane and required the Commission, with the assistance of other state agencies, to develop a new framework for the injection of biomethane into the natural gas pipeline systems of the California natural gas utilities. On February 13, 2013, this Rulemaking was issued to address AB 1900 and adopt biomethane standards and requirements, open access rules, and related enforcement provisions.

On May 2, 2013, the assigned Administrative Law Judge and Commissioner issued their scoping memo and ruling, determining “the cost associated with meeting the Commission-adopted standards and requirements will be addressed in this proceeding, after the Commission has undertaken the work associated with adopting [] standards and requirements...”¹

Subsequently, on January 22, 2014, Decision (D.) 14-01-034 adopted testing requirements and concentration limits for 17 constituents of concern that may be found in biomethane and provides that, if biomethane meets the utility’s existing gas quality requirements and the incremental biomethane requirements, the biomethane may be accepted into the utilities’ natural gas pipelines. As determined by the Commission, “[s]ince there are differences in the composition of biogas and biomethane, as compared to fossil natural gas, it is reasonable, rational, and in the public interest to impose additional requirements on biomethane which is injected into a common carrier pipeline.”² However, save more prescriptive testing to address potentially hazardous or deleterious biomethane constituents, the incremental biomethane requirements do not result in a deviation from the existing interconnection and ongoing testing and monitoring processes applicable to any party for the purpose of physically interconnecting with the utility and effectuating the delivery of natural gas.

The Commission instituted this Phase 2 of the Rulemaking to address “who should bear the costs of complying with the Commission-adopted testing, monitoring, reporting, and recordkeeping requirements.”³

II. RULEMAKING 13-02-008 PHASE 2 ISSUES

An entity wishing to interconnect with SoCalGas’ and SDG&E’s natural gas pipeline system (an “interconnector”) is required to comply with certain interconnection requirements,

¹ May 2, 2013 Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge at 7.

² D.14-01-034, mimeo., at 151 (Conclusion of Law 33).

³ April 9, 2014 Amended Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge at 3.

including gas quality specifications. The cost of compliance with these requirements is addressed in SoCalGas' and SDG&E's Rule 39, Access to the SoCalGas and SDG&E Pipeline System, and the therein referenced, Interconnection Agreements, and Schedule G-CPS – California Producer Service. Ultimately, the purpose of the requirements is to develop a process that will result in the interconnector being able to meet its primary responsibilities -- safely providing compliant gas into the utilities' pipeline system for purchase and transport thereon by the utilities' end-use customers.

Interconnectors are currently responsible for paying for the full cost of complying with these requirements, including the cost of the interconnection, necessary system modifications or upgrades, and the cost of ongoing operations and maintenance. The “interconnection” typically consists of two components, the “point of receipt” and the “pipeline extension.” The point of receipt components are generally considered the above ground components that monitor the biomethane prior to it entering SoCalGas' and SDG&E's pipeline system.⁴ The pipeline extension is the pipeline that goes from the outlet of the point of receipt to the nearest pipeline that can accept that volume of biomethane and transport it pursuant to the applicable backbone transportation service agreement.⁵ The interconnection also includes, the means to bring natural gas to the point of receipt (producer piping), a secure location for the facilities, producer provided power and communications, an ingress and egress access road, other upgrades or equipment necessitated by site-specific conditions, and the ongoing operations and maintenance of these facilities. These are general requirements applicable to all interconnectors, including California natural gas production.

In order to develop a framework for the safe introduction of biomethane into the utilities'

⁴ The point of receipt consists of, but is not limited to, equipment such as: odorant facilities, gas chromatographs, valves, an oxygen analyzer, hydrogen sulfide monitors, the meter set assembly, gas sampler, corrosion monitors, a filter separator, and necessary communications and control equipment.

⁵ Schedule No. G-BTS, Backbone Transportation Service,
<http://www.socalgas.com/regulatory/tariffs/tm2/pdf/G-BTS.pdf>.

pipeline systems, D.14-01-034 adopted incremental biomethane requirements. The cost of complying with these biomethane testing, monitoring, reporting, and recordkeeping requirements is the primary focus of Phase 2 of this Rulemaking.

a. What costs are associated with the testing, monitoring, reporting, and recordkeeping requirements as adopted by D.14-01-034? Are these one-time or ongoing costs?

The incremental costs associated with biomethane testing, monitoring, reporting, and recordkeeping will vary depending on the project and will be both ongoing costs (periodic testing) and one-time costs (pre-injection testing).⁶ Though facilities must be installed in order to allow for testing and monitoring (i.e., gas sampling equipment), the facilities are not specific to biomethane producers and, therefore, the cost of those facilities and associated operations and maintenance would not be incremental to existing interconnector costs.⁷ A biomethane producer will, however, incur additional, ongoing testing and analysis costs stemming from the pre-injection biomethane tests and ongoing biomethane periodic testing. These ongoing costs will vary depending on the biomethane source and the interconnector's compliance with the Rule 30 specifications.

First, a biomethane interconnector will be required to perform two pre-injection biomethane tests. D.14-01-034 requires the biomethane interconnector to sample the biomethane and send the sample to a third party laboratory for analysis. The laboratory results are to be shared with the utility. Although the biomethane interconnector is responsible for this work, SoCalGas and SDG&E estimate the fully loaded cost for the two pre-injection tests to be approximately \$14,000. The cost of the pre-injection biomethane tests are one-time costs. As

⁶ This section addresses the biomethane-specific testing and monitoring that is incremental to existing natural gas specifications and processes. As such, the cost estimates included in this section do not include estimates for current requirements; e.g., traditional facilities, startup testing, and ongoing testing and monitoring.

⁷ New instrumentation or monitors that are unique to biomethane or the 17 biomethane constituents may be developed and available in the future. Such equipment could be utilized to offset testing and analysis costs, but could involve additional facilities costs.

the biomethane interconnector is the party sampling and submitting the samples to a laboratory, it will not result in any additional costs assessed to the biomethane interconnector by the utility.

Next, although the periodic biomethane constituent testing will vary depending on the biomethane source and will vary in frequency depending on biomethane constituent level compliance, SoCalGas and SDG&E estimate the fully loaded cost of the periodic testing will range from approximately \$6,250 (assuming the biomethane constituents are tested annually) to \$25,000 (assuming the biomethane constituents are tested quarterly). These estimates assume testing for all 17 biomethane constituents and include the estimated cost of the test and associated labor.⁸ Tests would decrease for biogas sources that do not require testing for all 17 constituents. The periodic testing costs are ongoing.

Lastly, the reporting and recordkeeping costs are an ongoing regulatory function. The reporting and recordkeeping costs are built into the various utility groups and separate charges are not traditionally assessed to interconnectors.

In conclusion, assuming a source that requires testing for all 17 constituents, the incremental fully loaded costs incurred by a biomethane interconnector, relative to a traditional interconnector, would be approximately \$20,250 to \$39,000 in the first year and \$6,250 to \$25,000 in subsequent years.

b. How do these costs compare with the total start-up and operational costs of the biogas production facility?

SoCalGas and SDG&E would defer to the biomethane producers as to the cost of purchasing and maintaining their production facilities.

⁸ Additional information on hourly labor rates, operations and maintenance fees, gas quality monitoring and enforcement fees, and system modification fees can be found in SoCalGas' Schedule G-CPS – California Producer Service. See <http://www.socalgas.com/regulatory/tariffs/tm2/pdf/G-CPS.pdf>.

c. Are there any additional costs to be considered and why should they be resolved by the Commission?

It is difficult to determine every possible cost that each producer might incur. As it relates to an interconnection, the basic costs include the point of receipt facilities, pipeline extensions, related operations and maintenance, and system changes necessitated by new supply.⁹ Although the point of receipt facilities will vary, a typical list of equipment is provided in SoCalGas' Schedule G-CPS.¹⁰ These costs could apply to any producer.

High level point of receipt estimate ranges can be developed using facility size and output as variables. For example, a typical biomethane producer might range from 1 MMcfd to 10 MMcfd with the associated fully loaded point of receipt cost ranging from \$1.2 million to \$1.9 million. These estimates include costs applicable to all California producers, including: a interconnect capacity study, preliminary and detailed engineering studies for standard and non-standard equipment, the point of receipt equipment, project and project management, construction, quality assurance and control, permitting and agency approvals, commissioning, power and telecommunications, and Income Tax Component of Contributions and Advances (ITCCA¹¹). The estimates do not, however, include the cost of the pipeline extension or ongoing operations, maintenance, and testing.

For illustrative purposes, using average historical project cost data, a sample interconnection, with a maximum flow of 7 MMcf/d, minimum flow of 0.4 MMcf/d, and maximum allowable operating pressure (MAOP) design of 300 psig would cost approximately \$1.41 million. This would include approximately \$880,000 of direct costs, approximately \$167,000 of indirect costs, and approximately \$366,000 of ITCCA (assuming ITCCA of 35%). Actual construction costs for a particular project could vary significantly from estimates due to

⁹ For example, new supply could necessitate modification to the Electronic Bulletin Board to facilitate operational balancing requirements or changes to the utility's BTU districts.

¹⁰ See <http://www.socalgas.com/regulatory/tariffs/tm2/pdf/G-CPS.pdf>, Attachment A.

¹¹ See <http://www.socalgas.com/regulatory/tariffs/tm2/pdf/PS-IV.pdf>. However, some interconnectors may meet all IRS safe harbor conditions which eliminates the ITCCA tax assessment.

design, permitting, and construction variables associated with this specific project; such as site conditions, biomethane source, and delivery capacity. The point of receipt cost components are one-time costs.

In addition, there are ongoing operations and maintenance costs for the point of receipt facilities. Producers currently pay a monthly operations and maintenance fee based on a standard number of maintenance visits to the meter, and odorant costs proportional to producer's delivery volume less the utilities' historical interstate pipeline odorant cost.¹² The producer would also pay the cost of any excess visits beyond the standard specified for the meter. Fully loaded monthly operations and maintenance costs for a producer, biomethane or otherwise, is estimated to be approximately \$3,500/month.

Again, although these costs are potentially incurred by any interconnector and are not directly related to the Commission's biomethane testing, monitoring, reporting, and recordkeeping requirements, as discussed in the following section, addressing these costs may be an effective means to improve biomethane project economics.

d. Should the biogas supplier, biomethane producer or supplier, the gas utility or other entity bear particular costs?

Accelerated adoption of renewable energy, such as biomethane, would provide environmental benefits and assist California in meeting the state's greenhouse gas emission reduction policies and objectives. California and the Commission have consistently demonstrated their focus on environmental concerns and, as the Commission noted in its Order Instituting Rulemaking: "California has long been interested in the responsible use of organic waste to promote environmental and economic goals including but not limited to clean air,

¹² Rule 39, Access to the SoCalGas / SDG&E Pipeline System, A. Terms of Access 8:

As defined in an IA, the Interconnector shall pay all costs associated with the odorant of the delivered natural gas less the historical costs, on a per unit basis; the Utility has paid for odorant required for existing interstate supplies being delivered as of the date of D.06-09-039. The historical cost is \$0.0003 per Dth. As defined in a CPIA (Form 6454), the Interconnector shall pay all costs associated with the odorization of the delivered natural gas.

effective waste management, job development, energy independence, and resource diversity.”¹³ Indeed, this Rulemaking was intended to determine how best to expand and accelerate biomethane injection in a way that was “in the best interests of all stakeholders including, but not limited to, gas corporations, biomethane producers, ratepayers, and the public.”¹⁴ Although the primary focus of this Phase 2 is the incremental biomethane costs, the Commission could also address longer term methods to promote biomethane interconnections by finding that revenues generated by the sale of cap and trade allowances can, in the future, be used to promote biomethane injection.¹⁵ As discussed below, the cap and trade allowance revenue is a potential source of funding, but is not an immediate solution and would not result in an immediate change in cost allocation policy.

The California Air Resources Board’s (CARB) has proposed draft amendments to the Cap-and-Trade Program regulations that would allocate allowances to natural gas suppliers and each year a natural gas supplier would receive an amount of allowances equal to its total compliance obligation. A certain portion of these allowances would be consigned to auction. Allowances consigned to auction will generate revenue. As with similar revenue generated by electric utilities, CARB proposes that the use of allowance revenues received by natural gas corporations be subject to limitations imposed by the Commission. As such, the policy, programs, rules and tariffs necessary for natural gas investor-owned utilities to comply with the CARB Cap-and-Trade Programs are currently being developed in Rulemaking 14-03-003.¹⁶ As part of this effort, the Commission has stated its intent to address “the use of revenues that natural gas corporations may receive if CARB allocates allowances to utilities for ratepayer benefit...”¹⁷

¹³ February 13, 2013 Order Instituting Rulemaking 13-02-008 at 3.

¹⁴ February 13, 2013 Order Instituting Rulemaking 13-02-008 at 9.

¹⁵ The Commission and Parties to this proceeding could explore the use of non-utility cap and trade investment fund revenues.

¹⁶ See Rulemaking 14-03-003.

¹⁷ Rulemaking 14-03-003 at 2.

The use of cap and trade allowance revenue for electric utilities is already governed by statute and Commission decision.¹⁸ For electric utilities, subject to additional rules, a certain portion of cap and trade allowance revenues may be allocated for clean energy and energy efficiency projects. Generally, in order for an activity to receive designation for disbursement of these cap and trade allowance revenues, the Commission must determine that a proposed project will have a goal of reducing greenhouse gas,¹⁹ and be administered by utility and is not otherwise funded by another funding source.²⁰ The use of this revenue to lower cost impediments to injecting biomethane into the utilities' pipelines would reduce greenhouse gas emissions and is not directly funded by another source.

As such, cap and trade allowance revenue could be used to accelerate the injection of biomethane in California. However, since the natural gas utility cap and trade rules and processes are currently being developed in a separate Commission Rulemaking, the use of such funds will not be immediately available. In this Rulemaking the Commission should make a determination that the use of revenue set aside for clean energy projects may be used to promote biomethane pipeline injection. Meaning, the Commission would not be approving a specific proposal or budget, but would issue findings that would enable the utilities to propose, with more certainty, programs to support biomethane injection using cap and trade allowance revenues. This would enable the utilities to explore how best to use these funds to promote biomethane injection. For example, cap and trade allowance revenue could be allocated to pay a portion of the point of receipt facilities, pay the incremental costs incurred by biomethane interconnectors,

¹⁸ See California Public Utilities Code § 748.5(c) and D.12-12-033.

¹⁹ D.12-12-033, mimeo., at 198 (Conclusion of Law 46) (“Should the Commission decide at a later date to direct GHG revenues toward energy efficiency or clean energy programs or projects, such projects should have as a stated and measurable goal a reduction in GHG emissions.”)

²⁰ D.12-12-033, mimeo., at 191 (Conclusion of Law 7) (“Section 748.5(c) states that the Commission may allow investor-owned utilities to use up to 15% of the revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of GHG allowances to electrical distribution utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations, for clean energy and energy efficiency projects established pursuant to statute that are administered by the electrical corporation and that are not otherwise funded by another funding source.”)

or fund an incentive program to support biomethane injection more generally. Additional issues would then be addressed in separate applications based on the Commission findings in this Rulemaking and Rulemaking 14-03-003. These efforts would not immediately result in a change to interconnection cost allocation, but could lead to the development of programs to better promote biomethane injection.

III. CONCLUSION

SoCalGas and SDG&E maintain their support for the Commission's ongoing effort to expand biomethane use in California. To further promote this expansion, SoCalGas and SDG&E support a Commission determination that cap and trade allowance revenue allocated for clean energy projects may be used to improve biomethane interconnection project economics and accelerate biomethane pipeline injection.

Respectfully submitted,

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